

Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

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INVESTMENT SELECTION: DISCOUNTS CAN HELP YOU VALUE AND SELECT

Examination of discounts at which realty trust shares sell from stated book value is one of the best ways to judge the stock market's efficiency in pricing REIT shares. While the more immediate criteria is yield, reflecting current earning power generated by the book value coupled with market price, the ratio to book value is the market's judgement of longer term earning power. When earning power is low and/or the maintenance of book value questionable, the discount below book value is significant and often justified.

With REITs an afflicted group, most sell substantially below stated book value. And if book value as reported on balance sheets could be easily adjusted to realistic book value by converting many properties to current market value, restoring depreciation, etc., the discounts from book tabulated in our monthly tables would be even greater. If good subjective judgement can be applied to the objective ratio of price to book value, sensible investment decisions can be made. Additionally, expected

OUR SISTER SERVICE - NEW PACKET OF REIT EVALUATIONS

REIT EVALUATIONS is completing reviews of 9 trusts -- including three listed in this issue as seeking ways to use their NOL benefits:

M&T Mortgage	Mission Inv. Trust	Republic Mortgage
Metroplex (Justice)	Mtg. Inv. of Washington	Texas First Mortgage
Midland Mtg. Inv.	Mtg. Trust of America	TIERCO

Price prepaid: \$15 per individual trust, \$20 for the packet.

Speech available: Your editor's May 22nd presentation to the TSAI FORUM on "Capturing the Discount in Realty Stocks" is available free. Send self-addressed stamped envelope. Copies limited.

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continued high inflation rates will benefit REIT properties generally.

Stock market investors can use this principle to good advantage in assembling a diversified REIT portfolio today. It can be done with less risk in shares than by old time real estate developers who used the adage that time bails out real estate mistakes as a lazy substitute for near-term market feasibility analysis. Today's share investor can buy these mistakes at hopefully a greater than appropriate discount.

Trust shares selling at discounts appearing to offer meaningful investment/speculative opportunity fall into three rough categories. First are those with small discounts but whose asset quality is high, hence book value may be understated or has

DISCOUNTS FOR DIVIDEND PAYERS

Trust	Discount from book value	Price gain to book
Equitable Lf.Mtg.....	-13%	+15%
First Fidelity.....	-14	+16
Property Capital.....	-19	+23
San Fran. RE.....	-19	+23
First Cont'l.....	-22	+28
Investors Rlty.....	-22	+28
Hubbard REI.....	-23	+30
Fraser Mtg.....	-24	+32
Cont. Ill. Prop.....	-26	+35
R&M of Pacific.....	-28	+39
BankAmer. Rlty.....	-29	+41
MassMutual M&R.....	-29	+41
REIT of Amer.....	-29	+41
Riviere Realty.....	-29	+41
Mtg. Growth.....	-29	+41
Wells Fargo M&E.....	-31	+45
Lomas & Net. MI.....	-32	+47
Prop. Tr. Amer.....	-32	+47
Miller (Hen. S.).....	-32	+47
Pac. So. Mtg.....	-38	+61
GREIT Realty.....	-39	+64
United Realty.....	-40	+67
NW Mut. Lf. M&R.....	-40	+67
ICM Realty.....	-40	+67
Sutro Mtg.....	-41	+69
Nationwide RE.....	-48	+92
PNB Mtg. & Rl.....	-48	+92
Baird & Warner.....	-53	+113
Hospital Mtg.....	-53	+113

good room to appreciate. These trusts are basically heavily property oriented and are currently profitable and paying dividends. Generally they have small capitalizations with the natural consequence that the market does not price their shares efficiently. Small market value restricts opportunity but they may offer a field day for the little player. Prominent examples are: San Francisco Real Estate, Henry Miller Realty Trust, Mortgage Growth Investors and Property Trust of America.

What makes these particularly illustrative of what we are driving at is that all sell meaningfully below reported book value, 20-30%, while most have significant property holdings already depreciated. Theoretically some of this depreciation would be recaptured at sale or reflected in higher rentals when new properties come on stream to compete having today's and tomorrow's ever higher construction costs. This is not automatic of course because age dampens rents in medium and lower grade portfolios, especially lower income apartments. This type of situation has another advantage. Profitability means book value will not be eroded by losses and property trusts which do not pay out all cash flow in dividends can build up book value a bit.

The smaller discounts from book in this category may mean less upside potential than deep-discount shares but should prove appealing for conservative investors. This category offers what we believe are the best risk/reward ratios, the basic investment goal.

Our second category is dividend paying trusts offering what we consider medium to good sized discounts from book value, say 30-50%. (See list above.) The values you can find here are some above-average decent trust shares selling at larger discounts than trust shares of almost comparable quality. Standouts here include the likes of: Lomas & Nettleton Mortgage, MassMutual Mortgage and Realty, Northwestern Mutual Life Mortgage, Hospital Mortgage Investors, PNB Mortgage & Realty, United Realty in addition to BankAmerica Realty and Wells Fargo Mortgage & Equity whose discounts

are a little smaller. These are paying dividends and portfolio quality is medium to fairly good grade.

Again, as with our first category, the risk/reward ratio looks good. Upside potential may be limited because price is unlikely ever to exceed book value by very much but there is a good possibility the discount will be narrowed in time as problems are cured and assets earn a decent overall return. In the meantime, good current yields are provided in most cases which should also serve as downside protection. Also, with these trusts profitable, book value erosion should be minimal, necessitated only by further addition to the loss reserve. Baird and Warner Mortgage and Realty

DISCOUNTS FROM STABILIZING BOOK

Trust	Discount from book value	Price gain to book
C.I. Realty.....	-22%	+28%
Franklin Rlty.....	-23	+30
U.S.Bancp. R&M.....	-25	+33
Hanover Sq. Rlty.....	-33	+50
Amer. Realty.....	-37	+59
Wisconsin REIT.....	-41	+69
NW Fin. Inv.....	-43	+75
Atlanta Nat.....	-43	+75
Summit Props.....	-44	+79
Flatley Rlty.....	-44	+79
Mtg. Tr. Amer.....	-45	+82
Westport Co.....	-47	+89
Indiana M&R.....	-48	+92
CleveTrust Rlty.....	-49	+96
Eastover (Fir. Com.)....	-50	+100
Heitman Mtg.....	-51	+104
Security Mtg.....	-52	+108
Mission Inv.....	-53	+113
State Mut. Inv.....	-53	+113
Central Mtg.....	-56	+127
Growth Rl.(LMI).....	-56	+127
Texas First.....	-56	+186

for example just added to its loss reserve although paying dividends- from last year's earnings. Thus it may be considered only borderline attraction selling at a good-sized discount but with nominal yield.

A third category of attractive trust shares can be established out of non-dividend payers selling at deep discounts from a book value that is now stabilizing (see list). This can include a varied range of quality and type but speculative risk is the hallmark. The play here is that continued losses will not unduly diminish book value and some are nominally profitable, so that a significant part of the discount may yet be reflected in the share price.

A few trusts we would put in this group start at the conservative end of the scale. These would be such predominantly property types as Wisconsin REIT and Summit Properties. Discounts to book are only in the 40% range but this is steep for a mostly property portfolio.

Book value in both should have about stabilized with operational earnings and cash flow, respectively, positive. Dividend resumption relatively near term is also possible. Summit Properties even stated it hoped to pay this fiscal year. Several other various types, perhaps a notch lower in quality, have also stabilized their book value as breakeven has been achieved. Thus degrees of attraction accrue to Flatley Realty, Indiana Mortgage & Realty, CleveTrust Realty, Western Mortgage and Central Mortgage. Equity oriented Flatley may have the best potential of these, a small local situation which is well controlled. Western, a mortgage lender, is also small with its portfolio in hand. CleveTrust, long-term mortgage oriented with limited details on holdings, predicts 1978 profitability.

But it's the non-payers where book value hasn't yet stabilized selling at huge discounts which offer seemingly great appreciation potential as the arithmetic shows in our table. Some of the trust shares at large discount with above-average substance in their portfolios are Diversified Mortgage, Barnes Mortgage and North American Mortgage. The most speculative end of the discount-selection process, shares like these are the most difficult to appraise on a total return basis. Since current return is zero, the capital appreciation must make up for this current lack which will likely extend a few years. Moreover, big discounts are well justified in the case of unprofitable trusts because losses will further erode book value until such losses are

DISCOUNTS FROM DECLINING BOOK

Trust	Discount from book value
First Memphis.....	-26%
Fidelco Growth.....	-29
So. Atlantic (Atico)...	-31
Walter Realty.....	-39
Amer. Century.....	-45
Insti. Investors.....	-46
Mtg. Inv. Wash.....	-46
GMR Properties.....	-48
Republic Mtg.....	-52
Hamilton Inv.....	-54
Bay Colony Prop.....	-57
Wachovia Rlty.....	-58
First Denver.....	-59
No. Amer. Mtg.....	-60
Cameron-Brown Inv.....	-62
Diversified Mtg.....	-65
Barnes Mtg.....	-68

stemmed. And with almost all trusts, operational recovery has proven slower than expected.

As befitting the market's valuation in placing a big discount on these trusts' book value, they do reflect continued fundamental difficulties. Of the few such deep discount shares whose trusts have the better assets, it is probably not coincidental that two reported refinancing problems in recent weeks. North American will not be able retire its remaining subordinated debentures coming due in March, 1979 but intends to continue to make interest payments on all debt. Barnes Mortgage is behind on its principal repayments requiring deferrals to complete projects which it owns or is financing.

This is a reminder that playing the more speculative end of the discount cycle, where book value has not stabilized, means you're dealing with the toughest situations. Hopefully, the share price will

compensate for the fundamental risk and you can sit through the time required for workout and oversee such things as repayment delays. This heightens the attraction of playing the dividend payers at smaller discounts to book value. If you don't have better risk/reward ratio, you certainly have a better worry/reward ratio.

There can be speculatively intriguing shares, however, in this group despite the obvious risk from further book value deterioration. One which strikes us this way is Diversified Mortgage Investors which faces operating losses for at least the first three quarters of 1978 and is 65% secondary homesites, a more cyclical real estate business. At least DMI has streamlined debt down to one bank but perhaps most important, management is actively trying to negotiate merger or acquisition.

The willingness and effort to so make use of assets may be as important to investors as the quality of assets. After all, asset quality is usually recognized by market prices. Implied in share evaluation using the market discount from book value as a tool are two things: return on book is low hence the assets are worth something less than book and secondly, the size of the discount attempts to estimate how far from normal return the situation is. If return on book value can be brought up to the normal 8-10% return, the shares should eventually recover close to book. If 8-10% can not be earned in the normal course of operations, shareholders would be best served if these assets were liquidated and distributed. Everybody from business students on up knows this as a fundamental principle of business but apparently not all managers wish to face it. That's why we look more bullishly on situations where management is aggressive and active in looking for deals to merge, change asset makeup, shelter tax losses, and yes, even liquidate. Here are two trusts with attractive discounts:

PNB Mortgage and Realty Investors (9 5/8-NYSE) has one of the most attractive set of values among shares selling at discount. The discount, 49% below book value of \$18.73, is one of the largest. Yield is 8.3%, respectable even if slightly below average for this quality. Moreover, there is a little cushion behind dividends from cash flow, about 3-4¢ quarterly above reported earnings, which has not been paid out in most of the recent quarters.

One of the more successful bank sponsored trusts, with long-term mortgages lending stability, activity has been mostly around the bank's Philadelphia base to include nearby states. Investments are about evenly balanced between short and long-term mortgages and properties which is roughly matched by funds when you consider the equity and fixed (mortgage) debt carrying the long-term mortgages and properties. Return on the overall

portfolio is slightly low but at least there is the possibility of improvement, particularly from foreclosed properties. Problem assets never did get too high and by March 1978 were down to \$14 million, 12% of holdings. Almost all are foreclosed. Property returns were hurt in the March quarter by severe winter expenses bringing profit down to 16¢/share from 22¢ preceeding.

Earning progress may be modest but looks fairly sure. Some parts of the portfolio should even appreciate in time. Return should at least approach normal meaning a share price closer to book value.

ICM Realty (8½-ASE) is potentially attractive. The present discount is 42% below \$14.61 book value but there is probably exceptional off-the-balance sheet book value in many of its land leasebacks. These always had potential from percentage participations but were overshadowed by problems which diminished book value in recent years. But hopefully the problems are now reserved while the reviving stage of the real estate cycle will permit benefits: restoration of some problem properties, particularly apartments, increased percentage receipts as rents undergo inflation, and proceeds from refinancing as land tenants can carry higher mortgages on more valuable properties or even buy back the land leases. As a practical matter, ICM's recovery looks modest this year and problem land is particularly slow but operations are improved and problem properties are running cash flow breakeven. The biggest problems remain. The Idylwood condos in Virginia are only about half sold even though moving better. The three old Kassuba apartments still held are at least no longer a cash drain with the trust happy with the new owners.

Dividends can't be estimated as the credit agreement limits dividends to taxable income which arises from profitable operations. Capital gains are covered by a capital tax loss carryforward and must repay bank debt.

MERGERS/ACQUISITIONS: THREE CONVERSIONS IN SEARCH FOR WAYS TO USE TAX LOSSES

Three realty trusts are reorganizing into general business corporations in the continuing search for ways to use their large net operating loss (NOL) carryforwards.

Their managers are generally reluctant to discuss that aspect of the conversions because the IRS has been known to upset these best-laid plans. The trio:

Beneficial Standard Mortgage Investors (2-7/8--NYSE) is asking shareholders to approve on June 13 a plan to convert the trust into a newly formed company named Alamand Corp. If holders approve, BSMI shares would be exchanged share-for-share for Alamand. BSMI is winding down its mortgage portfolio and has been an aggressive seller of foreclosed property. It ended its relation with Beneficial Standard Corp. in January and became internally administered. Shares have risen sharply on news of the conversion and at present levels become somewhat chancy.

Cousins Mortgage & Equity Investments (2-3/8 NYSE) will seek approval of a share-for-share exchange into a new business corporation that would own the trust as a subsidiary. The new company will be largely staffed and managed by Fuqua Industries, an NYSE conglomerate, and will seek to acquire companies in non-real estate fields. Fuqua will provide or arrange financing for any acquisitions and would receive a five-year option to buy up to 25% of shares of the new company at the lower of book or market value in return for its efforts. The present trust would remain liable for its present bank debt and \$30 million of 6½% subordinated debentures due March 1982. The new company would have no obligation for this debt, now totaling \$112 million.

First Commerce Realty Investors changed its name to Eastover Corp., hired the former financial officer of a large mortgage trust, moved its offices from New Orleans to Jackson, Miss., and said it will end its advisory contract with a subsidiary of First Commerce Corp., bank holding company. First National Bank of New Orleans

has agreed to buy \$5.2 million assets during 1978 and this with pending swaps will let the trust eliminate all bank debt. The moves culminate the transition of the trust begun two years ago when a group headed by Jackson stockbroker and investor Leland Speed began buying large blocks of the shares. Speed is now president of the trust. Eastover is left with about \$11.01/sh. book value which could be boosted a bit by the pending sales and repayments. At current prices of 5-3/4 bid (OTC) and \$10.04/sh. tax loss available, the shares haven't run up like the other two.

But Cousins has \$49.7 million tax-loss carryforwards at end of its Aug. 1977 fiscal year and another \$25 million of expenses reported to shareholders haven't yet been expensed for tax purposes. Beneficial Standard has \$19.1 million NOL benefits as of its July 1977 fiscal year. On a share basis, Cousins' NOL equals \$12.90/sh. and Beneficial Standard's is \$14.10/sh. Since both have only nominal book value of \$1.02/sh. for Cousins and \$0.36 for Beneficial Standard, these large NOL carryforwards are an obvious and intriguing intangible asset.

NET OPERATING LOSSES FOR 65 REALTY TRUSTS

Trust (latest year)	-Net Op. Loss--		Trust (latest year)	-Net Op. Loss--	
	Mil. \$	Per Sh.		Mil. \$	Per Sh.
Alamand (Ben.Std.)-July '77.	\$19.1	\$14.10	Great Amer.-July '76#.....	\$58.0	\$13.02b
Amer. Cent. -June 1977.....	19.4	7.44	Growth Rl.(LMI)-June '76#... 16.8a		8.16
Amer. Fletcher-Jan. 1977#..	21.0	15.50	Guardian Mtg.-Feb. 1976#....	55.0	18.33
Amer. Realty-Sept. 1976#...	7.9	3.55	Hamilton Inv.-Dec. 1977.....	7.0	3.33
BT Mtg. Inv.-Sept. 1977....	14.9a	7.04	Hanover Sq.-Aug. 1976#.....	4.3	4.55
Barnes Mtg.-Sept. 1977.....	12.6	6.60	Heitman Mtg.-Dec. 1976#....	E15.0	E4.56
Barnett Mtg.-March 1977....	44.2	20.33	IDS Realty-Jan. 1978.....	40.6	16.85
Barnett Winst.-Sept. 1977..	15.0	9.02	Independence-June 1977.....	32.0a	12.80
Bay Colony - May 1977.....	34.7	11.60	Inst. Investor-Jan. 1978....	40.8	6.71
Builders Inv.-Sept. 1977...	31.8a	10.86	Metroplex Rl.-Sept. 1977....	19.5	16.47
Cameron-Brown-Dec. 1976#...	4.8	2.38	Mission Inv.-Nov. 1977.....	9.7	5.35
Capital Mtg.-Dec. 1977.....	21.8a	13.01	Midland Mtg.-June 1977.....	19.1	8.02
Central Mtg.-Mar. 1977.....	2.0	2.58	Mtg. Inv. Wash.-March 1977..	2.0	0.93
Chase Man. M&R-May 1977...E	100.0	E20.46	NJB Prime-Nov. 1977.....	16.0	12.03
C.I. Mortgage-Oct. 1976#...	24.0	5.00	NW Fin. Inv.-Dec. 1977.....	5.5	3.64
C.I. Realty-Feb. 1977.....	6.0a	2.30	Plaza Realty-Dec. 1976#....	6.8	6.1
Citizens Mtg.-Dec. 1977....	16.6a	11.68	Republic Mtg.-Dec. 1977.....	24.2	11.50
Cit. & So. Rlty.-June 1977..	107.3	28.02	So. Atlan.(Atico)Oct. '76#...	14.4	5.32
Colwell Mtg.-Dec. 1977.....	33.0a	16.26	State Mut.-Mar. 1977.....	20.7	7.43
CleveTrust Rl.-Sept. 1976#.	13.0	5.15	Texas First-June 1977.....	8.6	8.15
Cont. Mtg. Inv.-Mar. 1976#.	111.5	5.35	TIERCO-Dec. 1977.....	11.2	9.65
Cousins Mtg.-Aug. 1977.....	49.7a	12.90	Tri-South Mtg.-Dec. 1977....	34.6	15.31
Cont. Ill. Rlty.-March 1977.	NR	NR	UMET Trust-Nov. 1977.....	21.0	9.96
Diversified Mtg.-Dec. 1977..	36.2a	4.94	U.S.BanTrust-May 1977.....	3.4	4.08
Eastover (Fir.Com.)-Dec. '77.	10.1	10.04	U.S. Realty Inv.-Dec. 1976#.	4.9	1.43
Fidelco Growth-Nov. 1977....	8.6	5.41	Wachovia Rl.-Aug. 1977.....	13.4	4.02
First Memphis-Nov. 1976#....	6.7	5.77	Walter Rlty.-July 1977.....	7.7	7.44
First Mtg. Inv.-Jan. 1977#..	82.0a	9.65	Westport Co.-Oct. 1977.....	29.5a	12.35
First Newport-Oct. 1977.....	27.0a	11.54	Wisconsin REIT-Dec. 1977....	2.8	1.85
First Denver-Sept. 1977.....	16.0	9.87	TOTAL NOL.....	\$1,538.7M	
First Penn. MI-July 1976#...	24.0	8.10			
First Virginia-June 1977....	12.0	9.93			
First Wisconsin-Dec. 1977...40.0a		20.12			
Franklin Rl.-June 1977.....	2.4	2.40			
GMR Properties-Feb. 1977#...	27.0	12.22			

a--Additional losses reported publicly and potentially available for tax.
b--4-for-1 reverse split pending.
Later year not available or computed.

But the trio of trusts aren't at all unique and our survey shows there are about 65 trusts with sizeable NOLs. Those 65 have about \$1.5 billion total loss carryforwards and if our estimates are correct, about another \$1.2 billion of losses have been reported for public purposes but remain to be expensed for tax purposes. These potential losses have special value for acquirers because a profit-making acquirer could time the taking of these losses to maximize the tax benefit.

Does that mean we're advising you to rush out and buy shares of Citizens & Southern Realty, which happens to have the biggest NOL per share of \$28.02/share, or any other trust listed above for that matter? Not at all.

Using the realty trust industry's massive NOL benefits has occupied the best minds on Wall Street's investment banking and law firms for over a year now. The deals outlined above are virtually all they have been able to produce so far, plus the acquisition of a carpet manufacturer by former TMC Mortgage (now TMC Industries) earlier this year (see RTR, Dec. 22, 1977). That's not a lot.

So we wouldn't advise paying anything like full value for NOLs. They may be worth 25¢-per-dollar if management is creative and aggressive in finding way to use them to offset future profits, but are worth far less if management is stand-pat in using them.

As a general rule, trusts sponsored by institutions in the list aren't good bets to find ways to use NOL. But when aggressive and entrepreneurial management goes on its own, as Beneficial Standard Mortgage has done, then shareholders can look for more activity. You should also be familiar with two other aspects of NOL:

1. IRS rules for using NOL are frightfully complex. There are no simple rules and it's impossible to generalize without getting down to specific cases. Lawyers can spend weeks and months on just one situation. Right now there are two general requirements for completing mergers or acquisitions that hope to use the NOL benefits of one entity: a) The entities must generally be in the same line or business, and b) There must be at least a 20% continuity of ownership between the loss corporation and the acquiring corporation, meaning that shareholders of the loss corporation must receive at least 20% of market value of the resulting common stock.

These rules are complicated by new provisions scheduled to take effect July 1, 1978 that do away with the line-of-business requirement but change the ownership proportion to 60%-40% (i.e., shareholders of a loss corporation must also receive at least 40% of value of resulting corporation's stock). And the new law also contains a three-year look-back provision on share ownership that is so complex that even lawyers aren't certain what it means.

As if that isn't complex enough, both House & Senate have passed a measure to postpone effective date of this new law for two years while its impact is studied further. But that measure, while noncontroversial and with wide support in Congress, is part of a bill that has been stalled in a dispute over an unrelated tax matter. Thus while most lawyers proceed on assumption that the two-year postponement will be enacted, there's no guarantee this will happen at all.

2. Stock exchange listings may be lost in the merger process. Beneficial Standard Mtg. already is reconciled to giving up its NYSE listing if the merger into Alamand Corp. goes through. The reason: Even though Alamand will own BSMT and nothing else, it would not meet net worth and earning requirements for new listing on the NYSE, even though BSMT is eligible for continued listing. In effect NYSE considers Alamand a new corporation and applies its rules for new listings. Cousins hasn't crossed this bridge and hopes to continue on the NYSE.

Since management's willingness to dig in and solve the many dense legal problems on using NOL is crucial to investors, we'd advise staying with shares of only those trusts who've announced they'd like to attend the ball and have taken overt steps to gussy up themselves for the very rigorous merger/reorganization/acquisition chase. And since bank approval is essential (nearly all still owe large amounts to their banks), their ability to convince banks to go along is one indication of how serious they really are.

To date the trio above are joined by these other trusts:

Barnett Mtg. Investors, fresh from a successful restructuring of debt in March 1978, is planning to ask shareholders to change the trust's name (TRECO is the leading candidate) and may seek corporate status. The trust broke away from its former sponsor Barnett Banks of Florida April 1. Results for the March fiscal year haven't been announced but an estimated \$18 million gain on restructuring could give the trust about break-even shareholders' equity. The shares still are overhung by some near-term debt maturities and potential dilution from both old and new convertibles that become convertible into shares at 80% of the market price during Nov. 1978. Shares are not recommended even at current quotes above \$1.

Growth Realty Investors, formerly LMI Investors, has changed its name and already organized a mortgage brokerage subsidiary, Growth Realty Financial Co. Book value is \$6.88/sh. after the trust realized sizeable gains on interest forgiveness, debt restructuring and asset swaps. It has completed another swap to add about 13¢/sh. to June quarter results. Management has a mortgage banking background and so far has stressed forming its own subsidiaries, although it's indicated that it would consider acquisitions. The trust recently formed a joint venture to develop one land parcel and acquisition of development companies can't be ruled out. The trust became internally managed at the first of this year and began legal actions against a former Canadian realty trust with whom it had participated in some loans there. GRI has \$8.16/sh. NOL benefits and with some positive net worth, shares at about 55% below a stabilizing book value (see table, p. 3) become an attractive speculation at 3-1/8.

Diversified Mortgage Investors (2-7/8 NYSE) was spotlighted in March 10 RTR when we moved them up to No. 1 RELATIVE APPEAL RANKING after they stole the march on other trusts by borrowing from one bank to buy out all other bank debt at a discount. Gains from this deal plus swaps brought book value to about \$8.49/sh. at end of the March quarter. DMG says it is studying possibility of recommending conversion to corporate form to shareholders but hasn't done so yet. The trust's 1977 annual report lays its future on the line for shareholders: the trust doesn't have an ongoing business and is considering expanding into other areas "to take maximum advantage of the tax loss carryforward" of \$36.2 million or \$4.94/sh. Another \$46 million or about \$6.25/sh. has been expensed for public reporting purposes and still awaits expensing for taxes. The trust acknowledges that its expansion efforts are hampered by illiquid nature of its remaining assets and that its relatively short-term debt structure requires more asset liquidation. Operating losses are expected for the first three quarters of 1978 at best, and this will erode book value perhaps by 75¢ to \$1.00/sh. before any deals are likely to materialize. Even so, the discount of about 66% from book value now and about 60% from estimated book value in one year gives the shares special speculative appeal, given management's open search for profitable partners.

To these we'd add three smaller situations: Mission Investment Trust (2-3/8 ASE) at about 51% below book value; Texas First Mortgage (2-7/8 bid OTC) and about 64% below \$7.95/sh. book value; and TIERCO (1-3/4 bid OTC) and about 71% below the stated \$6.02/sh. book value. Book value has stabilized fairly well for both Mission and Texas First and is falling for TIERCO. Texas First has held one aborted merger discussion with another smaller trust and the other two have hired consultants and lawyers to outline ways to use their NOL. All are under some pressure from banks to liquidate assets to repay debt, with Texas First's debt load the smallest and expected to be repaid by year-end. We've just completed REIT EVALUATIONS on this trio (see p. 1).